

Suprajit Engineering

BUY

INDUSTRY	AUTOS
CMP(as on 15 Sept 2016)	Rs 199
Target Price	Rs 224
Nifty	8,743
Sensex	28,413
KEY STOCK DATA	
Bloomberg	SEL IN
No. of Shares (mn)	131
MCap (Rsbn) / (\$ mn)	26/392
6m avg traded value (Rsmn)	15
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 220 / 120
	3M 6M 12M
Absolute (%)	7.7 51.3 51.6
Relative (%)	1.4 35.6 41.1
SHAREHOLDING PATTERN (%)	
Promoters	47.37
FIs & Local MFs	8.01
FIIIs	7.52
Public & Others	37.10
<i>Source : BSE</i>	

Synergies to accrue

Suprajit Engineering (SEL) has acquired 100% stake of Wescon Controls, Wichita, USA, through its wholly owned subsidiary Suprajit USA Inc from Shell Topco LP managed by a PE fund Nova Capital, UK.

SEL is strategically working towards diversifying its revenue streams by acquisition of different business (earlier acquisitions being Pricol's speedo cable biz and Phoenix Lamps). We believe this acquisition is a strategic fit for SEL business as it will help to cater non auto cable business, which currently contributes only 3% to total revenue. This is expected to increase to 20% post the acquisition. As per the estimated EV of USD 44.4mn, the deal valued at ~7x EV/EBITDA and 1.1x EV/Sales looks fair.

Post this acquisition, we foresee SEL's topline growing by ~21-22% with marginal improvement in EBIDTA margins. However, higher depreciation and interest cost will result in only 1%/5% growth in earnings in FY17/18E. As the acquisition has been partly funded through debt, Net D/E could go up marginally to 0.7/0.3 in FY17/18E.

We upgrade our TP of Rs 224 (18x SEL's consolidated FY18E EPS) to include Wescon's numbers. BUY

Takeaways from the conference call

- Wescon Controls is the leading designer and manufacturer of mechanical cable and electronic controls for the North American outdoor power equipment (OPE) market and a significant supplier to other non-automotive control markets. With

two plants located at Wichita, Kansas and Mexico, total capacity stands at 28mn units. The company is expanding its US capacity from 15mn to 19mn and will be operational by Nov-16. The top 5/10 customers account for 50%/70% of revenue with none contributing >25% of revenue.

- This acquisition will take SEL's consolidated cable capacity to 257mn units with production of 180-190mn making it the world's second largest control cable manufacturing company.
- This offers a strong platform to support Wescon's growth into other non-auto segments and expand its geographic reach outside of North America.
- Wescon will be able to use SEL's supply chain spread across Asia. Also the company can bid for orders from existing orders for their plants based outside of USA (John Deere, MTD, etc), which it couldn't do earlier due to cost competitiveness.
- The EV of Wescon controls estimated at USD 44.4mn has been funded by SEL's cash and debt in a ratio of 50:50.

Consolidated Financial Summary (incl Wescon)

(Rs bn)	FY15	FY16	FY17E	FY18E
Net Sales	6,118	9,525	14,554	16,887
EBITDA (adj.)	960	1,543	2,474	2,938
APAT	503	776	1,337	1,745
Diluted EPS (Rs)	4.2	5.9	9.6	12.5
P/E (x)	47.5	33.5	20.8	16.0
EV / EBITDA (x)	26.8	18.4	12.8	10.2
RoE (%)	22.6	22.6	26.2	26.8

Source: Company, HDFC sec Inst Research

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Wescon Controls, a US based non-auto control cables manufacturer has 10% market share in the addressable market size of USD 350mn

The acquisition will create engineering synergies and cross-selling opportunities for both SEL and Wescon

Wescon is a highly profitable company with industry leading EBIDTA margin of ~18% and the management has indicated margins will be maintained in the range of 16-18% in line with SEL's margins

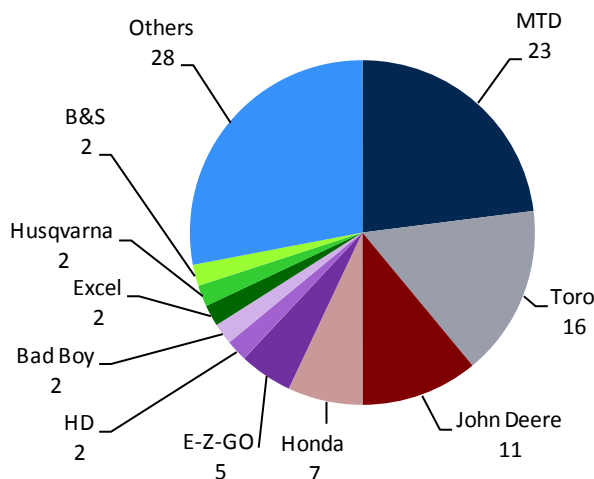
Wescon over the last 5 years has grown at CAGR of ~8% while the US GDP has grown at 2-3%

Wescon Controls - Company Background

- Wescon Controls is a market leading manufacturer of control cables in the non-automotive Outdoor Power Equipment (OPE) space in North America. The company makes mechanical controls, cable assemblies and screw machined components.
- The company has marquee customers like MTD, Husqvarna, John Deere, TORO, Honda, etc. Wescon has its plant in Wichita, Kansas, USA and Juarez, Mexico.
- 90% of the business comes from OEMs while the balance 10% comes from OEM Aftermarket (sold through OEMs only).

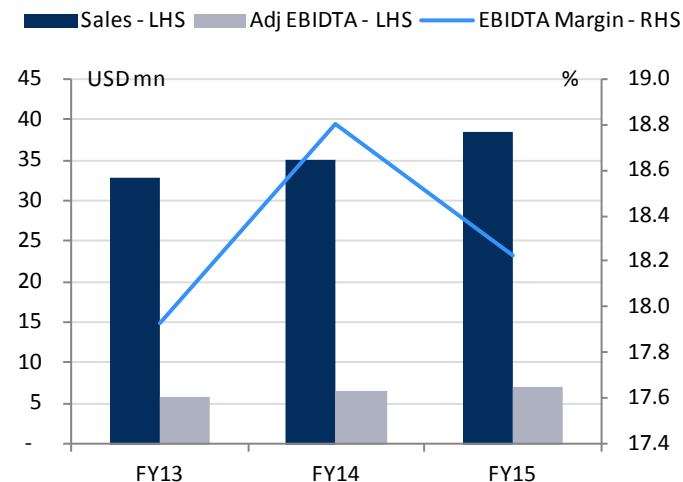
- Wescon competes with 4 major players in the global market- Kronsberg Automotive (USD 1.1bn), Cable Kraft (USD 50mn), Hi-Lex (USD 1bn) and a private company based out of US (USD 1bn+).
- In FY16, Wescon's revenues are expected to touch USD 40mn (+4% YoY) owing to flat growth in North America. However, the management indicated margins will be maintained in the 16-18% range and from FY17 onwards, North America will perform better.
- The market size of the OPE and non-auto cable business stands at USD 350mn of which Wescon holds ~11% market share (based on FY15 revenue).

Customer Wise Revenue Mix



Source: Company, HDFC sec Inst Research

Financial Performance



Source: Company, HDFC sec Inst Research

Peer Valuation

	Mcap (Rsbn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Balkrishna Industries	85	879	BUY	972	58.8	53.5	68.6	15.0	16.4	12.8	9.1	8.7	6.7	22.3	17.2	18.8
Bharat Forge	203	873	BUY	906	27.6	27.4	36.3	31.6	31.8	24.1	15.6	15.1	12.3	18.6	17.1	19.9
Exide Industries	166	195	BUY	211	7.0	7.7	8.7	28.1	25.4	22.6	16.1	14.5	12.8	14.0	14.2	14.7
Jamna Auto	17	213	BUY	222	9.0	12.4	14.8	23.7	17.2	14.4	10.8	8.5	7.0	32.5	36.0	34.6
Ramkrishna Forgings	11	379	BUY	590	19.1	30.0	42.2	19.8	12.6	9.0	11.3	8.0	6.5	12.4	16.9	20.3
Suprajit Engineering	26	199	BUY	224	5.5	9.6	12.5	36.2	20.8	16.0	18.4	12.0	9.5	22.6	26.2	26.8

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Net Revenues	5,452	6,118	9,525	14,554	16,887
Growth (%)	17.9	12.2	55.7	52.8	16.0
Material Expenses	3,313	3,729	5,635	8,587	9,929
Employee Expenses	701	826	1,253	1,892	2,178
Other Operating Expenses	513	603	1,093	1,601	1,841
EBITDA	926	960	1543	2474	2938
EBITDA Margin (%)	17.0	15.7	16.2	17.0	17.4
EBITDA Growth (%)	19.6	3.8	60.7	60.3	18.8
Depreciation	84	90	158	254	288
EBIT	842	870	1385	2220	2651
Other Income	36	41	155	109	164
Interest	134	164	250	283	248
PBT	744	747	1291	2046	2566
Tax (Incl Deferred)	236	245	431	655	821
Minority Interest	-	-	84	54	-
APAT	508	503	776	1337	1745
APAT Growth (%)	20.6	-1.1	71.1	61.8	25.4
Adjusted EPS (Rs)	4.2	4.2	5.9	9.6	12.5
EPS Growth (%)	20.6	-1.1	41.7	61.0	30.5
EO (Loss) / Profit (Net Of Tax)	-	-	57	-	-
RPAT	508	503	719	1337	1745

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS					
Share Capital - Equity	120	120	131	140	140
Reserves	1,927	2,288	4,344	5,598	7,139
Total Shareholders Funds	2,047	2,408	4,475	5,738	7,279
Minority Interest	-	-	542	542	-
Long Term Debt	558	928	1,582	1,432	1,282
Short Term Debt	1,002	1,005	1,005	2,492	1,005
Total Debt	1,560	1,933	2,586	3,923	2,286
Net Deferred Taxes	75	91	107	107	107
Long Term Provisions & Others	82	91	171	154	185
TOTAL SOURCES OF FUNDS	3,764	4,523	7,881	10,465	9,858
APPLICATION OF FUNDS					
Net Block	1,524	1,680	2,271	4,601	4,647
CWIP	7	170	144	233	246
Goodwill	-	-	1,066	850	-
Investments	5	0	-	-	-
LT Loans & Advances	65	69	181	226	237
Total Non-current Assets	1,601	1,919	3,662	5,910	5,130
Inventories	774	799	1,669	2,472	2,683
Debtors	1,189	1,250	2,096	3,110	3,331
Other Current Assets	180	144	447	560	607
Cash & Equivalents	818	1,173	1,706	676	900
Total Current Assets	2,960	3,367	5,918	6,818	7,522
Creditors	588	568	944	1,435	1,851
Other Current Liabilities & Provns	209	195	755	828	944
Total Current Liabilities	797	763	1,699	2,263	2,794
Net Current Assets	2,163	2,604	4,219	4,555	4,727
TOTAL APPLICATION OF FUNDS	3,764	4,523	7,882	10,465	9,857

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Reported PBT	744	747	1,291	2,046	2,566
Non-operating & EO items	-	-	(141)	(54)	-
Interest expenses	134	164	250	283	248
Depreciation	84	90	158	254	288
Working Capital Change	(382)	(81)	(1,115)	(1,427)	71
Tax Paid	(236)	(245)	(431)	(655)	(821)
OPERATING CASH FLOW (a)	344	676	11	447	2,352
Capex	(250)	(409)	(723)	(2,673)	(346)
Free cash flow (FCF)	94	267	(711)	(2,226)	2,006
Investments	-	5	0	-	-
Non-operating Income	19	11	(581)	290	308
INVESTING CASH FLOW (b)	(231)	(393)	(1,304)	(2,384)	(38)
Debt Issuance/(Repaid)	447	373	653	1,337	(1,637)
Interest Expenses	(134)	(164)	(250)	(283)	(248)
FCFE	675	804	192	(606)	617
Share Capital Issuance	-	-	1,505	9	-
Dividend	(133)	(137)	(84)	(156)	(204)
FINANCING CASH FLOW (c)	179	72	1,825	907	(2,090)
NET CASH FLOW (a+b+c)	293	355	532	(1,030)	224
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	818	1,174	1,706	676	900

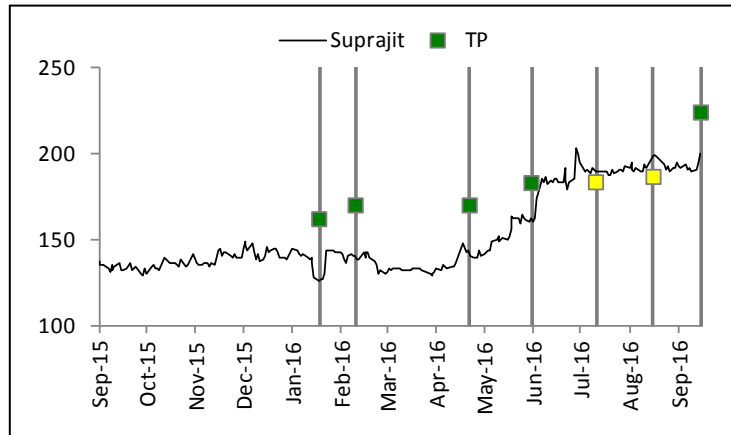
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY14	FY15	FY16E	FY17E	FY18E
PROFITABILITY (%)					
GPM	39.2	39.0	40.8	41.0	41.2
EBITDA Margin	17.0	15.7	16.2	17.0	17.4
APAT Margin	9.3	8.2	8.1	9.2	10.3
RoE	27.4	22.6	22.6	26.2	26.8
RoIC (or Core RoCE)	15.2	11.9	12.8	15.0	16.7
RoCE	18.4	15.1	15.5	17.0	19.2
EFFICIENCY					
Tax Rate (%)	31.7	32.7	33.4	32.0	32.0
Fixed Asset Turnover (x)	2.7	2.5	2.9	2.5	2.7
Inventory (days)	51.8	47.7	64.0	62.0	58.0
Debtors (days)	79.6	74.6	80.3	78.0	72.0
Other Current Assets (days)	12.0	8.6	17.1	14.0	13.1
Payables (days)	39.4	33.9	36.2	36.0	40.0
Other Current Liab & Provs (days)	14.0	11.6	28.9	20.8	20.4
Cash Conversion Cycle (days)	90.0	85.4	96.3	97.3	82.7
Debt/EBITDA (x)	1.7	2.0	1.7	1.6	0.8
Net D/E (x)	0.7	0.8	0.5	0.7	0.3
Interest Coverage (x)	0.2	0.2	0.2	0.1	0.1
PER SHARE DATA (Rs)					
EPS	4.2	4.2	5.9	9.6	12.5
CEPS	5.1	5.1	6.9	11.7	14.9
Dividend	1.0	1.0	0.6	1.0	1.2
Book Value	17.1	20.1	34.2	41.0	52.0
VALUATION					
P/E (x)	47.1	47.6	33.6	20.9	16.0
P/BV (x)	11.7	9.9	5.8	4.9	3.8
EV/EBITDA (x)	27.4	26.9	18.4	12.8	10.2
EV/Revenues (x)	4.7	4.2	3.0	2.2	1.8
OCF/EV (%)	1.4	2.6	0.0	1.4	7.9
FCF/EV (%)	0.4	1.0	(2.5)	(7.0)	6.7
FCFE/Mkt Cap (%)	2.8	3.4	0.7	(2.2)	2.2
Dividend Yield (%)	0.5	0.5	0.3	0.5	0.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
18-Jan-16	126	BUY	162
11-Feb-16	139	BUY	170
22-Apr-16	142	BUY	170
1-Jun-16	161	BUY	183
11-Jul-16	191	NEU	183
17-Aug-16	198	NEU	186
16-Sep-16	199	BUY	224

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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